

Statement of Senator Tom Harkin
United States Senate Commerce Committee
Aviation Competition and Service Field Hearing
Des Moines, Iowa
April 30, 1999

Mr. Chairman. Welcome to Iowa. I appreciate your holding this hearing in Des Moines concerning airline competition. Iowa is similar to many states with small and medium sized cities. We have a number of significant problems in terms of access to and the cost of air transportation for both business and leisure travelers.

In Sioux City, we have a complete lack of service to O'Hare, the number one destination for business travelers. And, the fares to other destinations are very high. Business travelers in Burlington and Waterloo also face very high air fares and can't get lower rates even if they book flights well in advance. Here in Des Moines the availability of flights is fairly good, but the cost of business fares are often sky high. While the walk up business fare from Des Moines to Dallas is an incredible \$1,006, in Kansas City it is only \$298.

Access to affordable air service is essential to efficient commerce and economic development. Americans have a right to expect it. The airports themselves are paid for by the traveling public through taxes and fees charged by the Federal government and local airport authorities.

However, unfortunately, when air fares and the determination of which cities would be served were deregulated in 1978, no effective framework was put in place to deal with anti-competitive practices.

And as a result, a variety of anti-competitive practices soon became rampant in the industry. Today, many of them are taken for granted even though they are, when we think about it, outrageous.

Some government policies have actually promoted an anti-competitive structure. The result is higher air fares than necessary and less service to mid and small sized communities.

Many airlines have developed effective monopolistic power in certain markets by controlling a "hub" airport. While, as I have noted, airports are built with federal funds, mostly collected from the traveling public, local airport authorities at major hub airports have done very little to create an environment where a new carrier can effectively make use of a hub airport. The airport authorities happily sign agreements with a dominant carrier that increase that carrier's effective control on the ability of a new entrant carrier to get gates. We should not be surprised when those airlines would rather see gates empty than lease them to competitors.

The major hubs in Iowa are located in Minneapolis, St. Louis and Chicago. Northwest controls over 80 percent of the airport in Minneapolis, while TWA controls a similar share of the St. Louis Airport. In Chicago, United and American are the dominant carriers and they do compete, but not usually on price.

The widely popular airline points system, special arrangements made with large companies, and the strong incentives given to travel agents to sell tickets on the dominant airlines all serve to lock in loyalty to the dominant carriers.

On top of all of these barriers, there is the practice of dominant carriers flooding a market with cheap seats where the new carrier flies, and keeping the price low until the day that carrier is gone.

Des Moines saw this pattern when Vanguard airlines came to Des Moines. Fares dropped sharply. United and American matched the fares and provided a very large number of seats at a low price. Travelers were very happy. But, Vanguard could not afford being undercut for long. And, as soon as they left, fares increased by 83% to Chicago.

Unfortunately, the government has contributed significantly to our problems through the creation of slot-controlled airports.

Let me give you a perfect example of what I mean. When AccessAir, a brand new small carrier, tried to get six slots to provide service from Iowa to La Guardia in New York, it was pretty clear that those who own what should be a public right to the airways, the right to land and take off, were not in a mood to sell or lease their slots.

Now, we have seen some improvement in recent years with the passage of a provision providing for the DOT to issue some exemptions to the slot rule in 1994. Dubuque has been a beneficiary of that provision. But, much more needs to be done.

Mr. Chairman, your bill, S. 82, takes significant steps towards loosening up the slot rule. And, we in Iowa appreciate it. But, it is time for the slot rule to go. There was a time, perhaps, in 1968 when the rule was first established, that it made some sense. There was a need to limit the number of aircraft that could land and take off compared to the demand. But, that has long passed because of improvements in radar, computers and air traffic control. I am hopeful that we will be able to convince the Senate of this.

The House has passed legislation that would eliminate the slot rule at O'Hare and the New York Airports in one quick stroke. That looks pretty good at first glance. But, after years of slot control, artificially controlling the marketplace, I believe we have a responsibility to end the rule in a way that mitigates against the effects of past inappropriate government action.

To that end, I have developed an amendment with Senator Grassley that we plan to offer to the Air Transportation Improvement Act. It creates a two step process to eliminate the slot rule at those three airports. It is designed to help new entrant carriers -- the smaller airlines which might provide some competition -- and small and mid-sized communities which often have limited or no air service to the slot controlled airports.

First, our proposal allows new entrant carriers a right to have up to 28 slot exemptions, giving them the ability to efficiently use a pair of gates.

Second, we allow exemptions for regional jets, which now usually carry 50 passengers exemptions, as long as they do not fly to the 31 major airports. These airports comprise a considerable majority of the nation's boardings. We would also allow turboprops to fly to any city with under 200,000 emplanements. The hope is that this will increase the ability of smaller cities to attract decent airline service.

Third, it provides that the DOT and the airport authorities shall work to provide the gates and other resources that new carriers need to operate at those airports.

Finally, five years later, the slot rule is ended.

Beyond legislative efforts, I believe that we need to support strong DOT anti-competitive guidelines. The guidelines would not re-regulate the industry, but they could provide a significant benefit in allowing new airlines to survive.

I believe this is a balanced approach that will work. It will give a much needed shot in the arm to Iowa and other similarly situated states. Mr. Chairman, I look forward to working with you and our other colleagues in moving it forward.

Mr. Chairman, before I end, I want to publicly thank you for the inclusion of a provision in the Committee passed reauthorization that provides financial assistance of up to \$500,000 for up to 20 cities to be used to improve the quality of their air service. I have cosponsored legislation establishing similar programs in this Congress and the last. And, I believe it could be very helpful to a number of Iowa cities.

Thank you again, Mr. Chairman, for conducting this important hearing. I look forward to working with you.